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Central Intelligence Bulletin

State Department review completed

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January 4, 1974

Approved For Release 2004/07/08 : CIA-RDP79T00975A025900140001-9

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EGYPT: Rumors of an impending cabinet change are cropping up again. The most likely candidate for prime minister is Minister of Economy and Foreign Trade Hijazi, the architect of Egypt's "non-socialist" economic policy that was begun before the war.

Reports of cabinet changes have long been rife, but the US Interests Section in Cairo believes that a reorganization may now be imminent. [redacted] 25X1

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25X1 [redacted] Sadat may be thinking in terms of a new government prepared to deal with post-war reconstruction and development.

Hijazi would be a logical choice to head a government of reconstruction. Since the war began, the Egyptians have been discussing plans for reopening the Suez Canal and rebuilding the canal towns. If they see hope of an early disengagement of Egyptian and Israeli forces, they may wish to proceed with these plans soon. Hijazi has the administrative and the economic experience necessary for the job. Foreign Minister Fahmi is reportedly to remain in the cabinet. [redacted]

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INTERNATIONAL OIL: The boost in oil prices by Persian Gulf producers on December 23 has been quickly followed by similar announcements from Venezuela, Libya, Ecuador, Indonesia, and Nigeria. These increases will add about $4-5 a barrel to crude oil prices. Estimated sales prices by Nigeria, Libya, and Venezuela will vary from $10 a barrel to about $13 a barrel, depending on the quality of the crude oil and transportation costs.

The Persian Gulf members of OPEC started the latest round of increases last month by more than doubling the posted price of crude oil. The new posted prices, which are not sales prices but are used for tax calculation purposes, will raise Persian Gulf oil revenues to about $7 a barrel, up from about $3.

Persian Gulf oil delivered to the US Gulf Coast is now expected to cost over $9, compared with $5 in November. Algeria, the only member of OPEC that has not made any announcement, will probably raise its prices eventually to Libya's level.

Canada's oil prices will follow those of OPEC. Energy Minister MacDonald has indicated that the export tax on crude oil could triple by February 1, to $6.50 a barrel. The tax, designed to keep Canadian oil in line with world prices, was first imposed on October 1 at $0.40 a barrel, rose to $1.90 on December 1, and to $2.20 on January 1. The US currently imports about one million barrels a day of crude oil from Canada, or about one third of US imports. A $6.50 export tax would bring the average US price for Alberta crude to $10.97 a barrel.

Most of the crude oil in world trade will be sold at comparable prices. An increasing amount of government-owned oil, however, is being sold at prices substantially higher. [redacted] 25X1

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25X1 [redacted] The Iranian Government recently sold 470,000 b/d for six months at prices ranging from $12 to over $17 a barrel, depending on quality. Subsequent to these sales, Arab oil producers agreed to increase production in January; the agreement may exert some downward pressure on the price of future government oil sales. [redacted] 25X1

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<u>JAPAN-EC</u>: Tokyo and the EC Commission apparently have agreed to a pattern of trade controls aimed at preventing market disruption by Japanese exports. Tokyo will establish export controls, principally on electronics products, in return for the removal of import controls imposed earlier by Italy and the Benelux countries. Japan recently worked out a similar agreement with the UK.

Tokyo's opposition to the inclusion of a safeguard clause--designed to prevent disruption of markets in the importing country--has been a major factor in preventing the conclusion of an overall trade agreement with the EC. The EC's willingness to accept Japan's offer to restrain exports has removed a major irritant in their relations, but this arrangement is only temporary and the issue will have to be addressed again later this year.

The EC has recently adopted "guidelines" for trade relations with Japan in lieu of a formal trade policy, which remains elusive because of continuing differences among the EC members. Nevertheless, the EC Commission is eagerly seeking to improve contacts with Tokyo in an effort to prevent trade disputes from interfering with a desired broadening of economic and political contacts. Commission President Ortoli is scheduled to visit Tokyo in mid-February. 25X1

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JAPAN - NORTH VIETNAM: Japan has concluded a contract to buy more coal from North Vietnam over the next two years and is offering assistance in developing oil resources in the Gulf of Tonkin, according to press reports.

The contract calls for up to 1.2 million tons of high-quality coal to be delivered over the next two years. Japan's imports of North Vietnamese coal totaled 600,000 tons in 1961, but amounted to only 190,000 tons in 1973. North Vietnam will probably have difficulty fulfilling the contract because Hanoi has not completely repaired war-damaged coal production and port facilities. In addition, should domestic economic conditions improve, coal would probably be diverted to domestic consumers. Even if the contract is fulfilled, however, North Vietnam would be satisfying less than one percent of Japan's coal needs.

North Vietnam has agreed in principle to accept a team of experts from a government-subsidized Japanese corporation to survey undersea oil resources in the Gulf of Tonkin. Two Japanese oil companies have already sent survey missions to North Vietnam, and a third reportedly has been negotiating for participation in an oil project. 25X1

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[redacted]

*SPAIN: The sweeping changes in the cabinet announced yesterday by newly appointed Premier Arias do not portend a basic shift in the regime's domestic and foreign policies. Franco apparently was guided by his usual practice of giving representation to the political, military, and economic interests that support the regime.

The new cabinet includes 11 new appointees and eight holdovers. Premier Arias, the new interior minister, and the new minister subsecretary in the premier's office are tough law-and-order advocates who are also good administrators. The new cabinet also has a number of moderate, pragmatic individuals who hold portfolios in the economic and social fields. These appointees are known to be interested in easing the economic and political restraints that have hindered Spain's efforts to develop closer ties with NATO and the European Communities. For the first time, the cabinet includes three vice premiers, but they appear to have been designated to assist Arias with administrative matters rather than to be in line to succeed the 65-year-old premier.

The big losers were the rightists. Former acting premier Fernandez-Miranda and several other ministers, who favored strong curbs against dissent, were dropped.

Another faction that lost out was Opus Dei, the Roman Catholic lay organization; its last remaining cabinet member--Foreign Minister Lopez Rodo--was not reappointed. He apparently was dropped so there would be no Opus Dei member in the cabinet when the Matessa Company financial scandal--to which a number of Opus Dei ministers in previous cabinets have been linked--comes before the courts this year. The economic and social team in the new cabinet is younger,

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untainted by scandal, and more sensitive to Spain's social problems than the Opus Dei technocrats who formerly controlled these ministries.

The new cabinet strongly supports Prince Juan Carlos as Franco's successor and will be ready to work with him when Franco retires or dies. [redacted] 25X1

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Defense Intelligence Agency, Department of Defense.

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<u>TAIWAN</u>: The absence of diplomatic ties with most of the world's nations failed to slow economic growth in 1973. Following two years of real growth in excess of 11 percent, the gross national product rose a record 12.3 percent to about $9.4 billion. The country's per capita income increased to about $475, among the highest in Asia. Exports grew 47 percent to $4.4 billion as Taiwanese products--chiefly textiles, consumer electronics items, and wood products--remained highly competitive in international markets. The overall trade surplus increased to some $600 million, and the surplus with the United States continued to grow despite increased imports of US goods.

The outlook for 1974, while less glowing, is still promising. Taipei predicts continued strong inflationary pressures and a slowdown in trade expansion and real economic growth because of rising import prices and energy constraints. It does not, however, anticipate an outright recession. Taiwan's trade surplus is likely to be cut sharply. The most recent hike in crude oil prices alone will add some $300 million to the import bill this year. Nevertheless, Taiwan is well prepared to handle a small trade deficit this year. It has some $1 billion in foreign exchange reserves to draw upon, and is not burdened by excessive repayments of foreign loans.

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ARGENTINA: Buenos Aires last week extended existing wage contracts and suspended all formal collective bargaining until 1975 in an attempt to prevent a resurgence of Argentina's wage-price spiral.

The executive decree gives legal force to the Social Pact of May 1973 between Peronists and labor and business that suspended collective wage bargaining for two years while allowing cost-of-living increases each June. The decree, which places industry-wide wage settlements in the hands of the executive branch, will make it less likely that organized labor will resort to large-scale strikes as a coercive weapon because of organized labor's close identification with the Peronists.

The Peronists had been under increasing pressure to grant wage adjustments before the scheduled adjustments in June because of the prospect that higher prices for imports of raw materials and intermediate goods would be passed on in higher domestic prices. Buenos Aires has countered this fear of "imported inflation" through promises of selective adjustments of import duties and exchange rates in order to absorb increases in world commodity prices. While such action will counter pleas for price and wage increases, it will also reduce government revenues and add to the projected budget deficit of $1.3 billion. 25X1

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